

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BAC3624 – ADVANCED AUDITING (All Sections / Groups)

17th October 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages excluding cover page with 4 Questions only.
2. Answer all **FOUR** questions. Mark distribution for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Review the following short scenarios. You are required to decide and elaborate whether there is any threat of independence in each of them. You are also required to suggest the ideal approach/solution in each of the scenario.

- a) KJ Firm were newly appointed to be the auditors for SunShine Cove Sdn Bhd, a company that specialises in house (residential) development. One of the partner's cousin happens to be working with the client in the landscape department.
- b) Last year, Challenger Bhd invited KJ Firm to assist them in setting up their internal control for their new financial systems, but the appointment was terminated after a month of work. This year, Challenger Bhd approached KJ Firm again, but to carry out audit work and the firm accepted the appointment.
- c) Merry-Go-Round Sdn Bhd has been an audit client for the past four years with KJ Firm. The client has been satisfied with the services provided, although the taxation fee for the period of 31 December 2017 remains unpaid, while the audit work is still undergoing.
- d) Odinson has been employed as a senior auditor in KJ Firm in early 2018. During his first two months of employment, he observed that it is common for KJ Firm's staff to attend their client's social gathering such as birthday events and family day.
- e) After finishing her accounting degree, Rapunzel joined KJ Firm as a new junior auditor. In her first audit assignment, she realised that the new client that her team has to audit is where her father is working as the Chief Finance Officer (CFO).

(Total: 25 marks)

QUESTION 2

- a) In performing audits, auditors would use samples instead of examining the whole population of the selected business transactions class.
 - i. There are two types of risks when auditors use samples namely sampling risk and non-sampling risk. Distinguish both of these risks. (5 marks)
 - ii. Even though examining samples carry certain amount of risks, elaborate three (3) reasons why auditors still proceed with examining samples.

(10 marks)

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b) Companies are utilising the effectiveness of their Internal Audit Function for three purposes namely financial, compliance and operational audit. In the event external auditors are performing their financial audit work, there is a high tendency that they will be using the work of internal auditors too. Supposed you are the head of the external auditors team, discuss the factors that you would examine before you can use the work of the internal auditors according to ISA 610 (*Using the Work of Internal Auditors*).

(10 marks)

(Total 25 marks)

QUESTION 3

a) Uchiha Bhd is currently preparing its financial statements for the year ended 30th September 2017. The financial statements are expected to be approved in the Annual General Meeting (AGM), on the 30th November 2017. Assuming that today's date is 20th November 2017 and the team of accountants were made aware of these following matters:

First Event :

On 1st November 2017, it was reported that there was a small explosion in one of the factories, due to the collision between two tankers that carry flammable materials. Three employees were injured but no fatalities were reported. They were all sent to the nearest hospital and given medical attention. Only one employee suffered burn on her right leg, while the rest just smoke inhalation. Due to the explosion, five containers containing waste products fell into the nearby river and The Department of Environment is considering if this is a breach of environmental legislation. Until today, there is no comment received from the company's insurance company.

Second Event :

On 15th September 2017, a customer initiated legal proceedings against the company in relation to a breach of contract. After consultation with the company's legal advisers on 20th September 2017, the company directors were informed that it is very highly unlikely that they will be held liable. Despite this comforting statement, the directors are not comfortable to overlook this matter, so a contingent liability of RM100,000 was recorded in the financial statements. On 30th October 2017, the court sentenced the company as liable based on technicality reason and they are required to pay damages amounting to material sum of RM250,000.

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For each of the two events above, you are required to:

- i. Explain whether the events are adjusting or non-adjusting according to IAS 10 (*Events After the Reporting Period*).
(4 marks)
- ii. Explain the auditors' responsibility and the audit procedures/actions that should be carried out according to ISA 560 (*Redrafted Subsequent Events*).
(12 marks)

b) You are an audit supervisor assigned to a new client, Drizzle Manufacturing Bhd. You visited the corporate head office to become acquainted with key personnel and to conduct a preliminary review of the company's accounting policies, controls and systems. During the visit, you observed that all employees wear their I/D badge at all times in the office premise. All rooms are equipped with badge scanner so that only authorised personnel are allowed to be in those rooms, except for the printing room, where the scanner was broken and apparently was never fixed. A network printer was stationed in the printing room and almost everyone can send their print out to the printer. You were informed that staff will be forced to change their password every 6 months to ensure the password are effective. While passing through the office, you recalled that you saw a few Stick-On-Notes on staff laptop with passwords scribbled on them. You also observed that the accounting system training manuals for the new joiners have been disposed at the dumpster outside of the office main building and the waste management company only collects waste on every Friday. Upon closer investigation, you were made aware that sometimes, during peak times of business activities, some of business transactions had to be sent for weekly schedule backup, instead of daily backup.

Required :

- i. Identify **THREE (3)** weaknesses in the organisation's control structure.
(3 marks)
- ii. Discuss **THREE (3)** control techniques/procedures that could have helped to prevent these weaknesses.
(6 marks)

(Total: 25 marks)

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QUESTION 4

a) ISA 320 defines materiality as “the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

There are three accounts in the financial statements that are easily influenced by these omissions or misstatements. Elaborate in detail the reasons why these accounts are likely to be misstated.

(9 marks)

b) The preliminary judgement about materiality is usually documented at the early stage of the audit while developing the overall strategy of the audit. Materiality has a great importance because decisions of financial statement users will be gravely affected if material misstatement is present in the financial statements. Explain why materiality is so important to auditors.

(6 marks)

c) Naruto has been the audit partner of Cemerlang & Co ever since the establishment of the audit firm. After he completed the latest audit for a confectionary company, he is now looking for another audit assignment. A new request came in from a prospective client called Meow Meow Bhd. The company is a pet store chain, which specializes in breeding pure breed exotic cats. The client is also heavily involved in import/export of these cats. Apart from providing services such as pet hotel and grooming, the business also provides veterinary service to its customers. Naruto is currently contemplating whether they should or should not take this new audit work, because no one in their team has ever audited this type of business.

Supposed you are in Naruto's position, discuss the two best options you would take when you are facing with this dilemma.

(10 marks)

(Total: 25 marks)

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